

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05
SS-15 STR-04 CEA-01 PA-01 PRS-01 /096 W
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R 060650Z JAN 77
FM AMEMBASSY TUNIS
TO SECSTATE WASHDC 5402
INFO AMEMBASSY ALGIERS
AMEMBASSY PARIS
UQMTI/AMEMBASSY TRIPOLI 2850

C O N F I D E N T I A L SECTION 1 OF 2 TUNIS 0097

E.O. 11652: GDS
TAGS: PINT EGEN ELAB TS
SUBJECT: PRIME MINISTER NOUIRA UNVEILS NEW FISCAL
AND PRICE PACKAGE

REF: (A) 76 TUNIS 3866, (B) 76 TUNIS 5002, (C) 76 TUNIS 6522

SUMMARY: DURING ANNUAL CONSIDERATION OF OOT BUDGET
IN NATIONAL ASSEMBLY AT END OF DECEMBER, PRIME MINISTER
HEDI NOUIRA REVEALED OUTLINES OF NEW POLICY ON PRICES, WAGES
AND TAXES. THRUST OF THIS POLICY IS TO INCREASE PRICES
OF "LUXURY" GOODS, INCREASE TAXES AND TAX COLLECTION
AT HIGHER INCOME BRACKETS, CONTROL PRICES OF POPULAR
CONSUMPTION GOODS, AND INCREASE WAGES AT LOWER END
OF INCOME SCALES. NOUIRA SAID THIS POLICY IS ESSENTIAL
TO SUCCESS OF FIFTH DEVELOPMENT PLAN BECAUSE IT WILL
MOBILIZE BADLY NEEDED DOMESTIC CAPITAL WHILE PROMOTING
SOCIAL PEACE. NOT SURPRISINGLY, FIRST REACTION TO
THIS POLICY IN MIDDLE CLASS IS NEGATIVE. THERE IS
NO INDICATION AS YET OF REACTION OF LOWER INCOME
GROUPS. POLITICAL GOAL OF NEW POLICY APPEARS TO
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BE QUIETING OF UNDERLYING SOCIAL UNREST BY SEEKING
TO ERASE MOST OBVIOUS MANIFESTATIONS OF UNBALANCED
INCOME DISTRIBUTION. END SUMMARY.

1. AT CLOSE OF NATIONAL ASSEMBLY BUDGET DEBATES
ON DECEMBER 31 PRIME MINISTER HEDI NOUIRA REVEALED
DETAILS OF GOT TAX AND PRICE INCREASES FOR 1977.

THESE INCREASES HAD BEEN FORECAST SINCE PSD SPECIAL CENTRAL COMMITTEE MEETING IN JULY WHEN NOUIRA FIRST BEGAN SPEAKING OF NEED TO CURTAIL CONSUMPTION AND INCREASE SAVINGS TO FINANCE FIFTH DEVELOPMENT PLAN. IN BUDGET DEBATE, GOT ANNOUNCED PRICE INCREASES FOR "LUXURY" GOODS (INCLUDING CIGARETTES, GASOLINE, HEATING OIL), SHARP "USE TAX" INCREASES FOR AUTOMOBILES, ESPECIALLY EXPENSIVE MODELS (MERCEDES AND SPORTS CAR OWNERS WILL PAY UPWARDS OF \$1200 A YEAR TO REGISTER THEIR STATUS SYMBOLS), AND TIGHTER CONTROL OF NON-SALARY INCOME TO CURB TAX EVASION BY UPPER INCOME GROUPS. THE TRADITIONAL GAME OF EVADING ALL TAXES WILL BE MORE DIFFICULT TO PLAY IN TUNISIA AS THE GOT WILL NOW REQUIRE EVIDENCE OF TAX PAYMENT BEFORE PERFORMING SUCH ROUTINE ACTIONS AS REGISTERING CARS, RECORDING LAND SALES, ISSUING IMPORT LICENSES, ETC. FINALLY, THE GOT ANNOUNCED STEEP CAPITAL GAINS TAXES ON "UNEARNED" INCOME FROM REAL ESTATE TRANSACTIONS.

2. IN THE MEANTIME, THE GOT HAS PROMISED EVENTUAL INCREASES IN MINIMUM WAGES RATES IN THE INDUSTRIAL AND AGRICULTURAL SECTORS AND UPWARD ADJUSTMENT IN CIVIL SERVICE SALARY SCHEDULE. TRIPARTITE COMMISSIONS REPRESENTING BUSINESS, LABOR, AND GOVERNMENT HAVE BEEN STUDYING THIS QUESTION SINCE EARLY NOVEMBER AND ARE APPARENTLY NEARING ACTION STAGE. GOT HAS ALSO PROMISED THAT THERE WILL BE NO PRICE INCREASES FOR BASIC CONSUMPTION GOODS OF LOWER INCOME GROUPS.

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3. IN MAJOR SPEECH OPENING NATIONAL ASSEMBLY BUDGET DEBATE DECEMBER 15, NOUIRA TOLD LEGISLATORS THERE WOULD SOON BE NEW TAXES AND SAID THEY WERE NEEDED TO ACCUMULATE MORE DOMESTIC CAPITAL FOR DEVELOPMENT EFFORT DURING FIFTH PLAN (1977 - 81). HE SAID FOREIGN CAPITAL SOURCES WOULD PROVIDE LOWER THAN TRADITIONAL PROPORTION OF COUNTRY'S INVESTMENT NEEDS WHILE WORSENERD INTERNATIONAL ECONOMIC CONDITIONS WOULD MAKE IT MORE DIFFICULT FOR TUNISIA TO FINANCE DEVELOPMENT FROM FOREIGN EXCHANGE EARNINGS. AT SAME TIME, NOUIRA PROMISED THAT GOT REMAINS COMMITTED TO IMPROVING LIVING STANDARDS OF LOWEST INCOME GROUPS THROUGH HIGHER WAGES AND MORE JOBS. HE ALSO PROMISED TO ATTACK A MAJOR SOURCE OF POPULAR DISCONTENT BY GIVING HIGHEST PRIORITY TO HOUSING CONSTRUCTION.

4. POLITICAL OBJECTIVE BEHIND THESE ECONOMIC MEASURES APPEARS TO BE QUIETING UNDERLYING SOCIAL UNREST THAT HAS DEVELOPED MOMENTUM OVER THE PAST YEAR. GOT HAS

BECOME INCREASINGLY SENSITIVE TO THESE DISSATISFACTION
AND IS CONCERNED THAT IF NOT CHECKED IT COULD PRESENT
SERIOUS CHALLENGE TO LONG-RANGE STAYING POWER OF REGIME.
GOVERNMENT ACTION IS DESIGNED TO REDRESS SOME OF THE
MORE OBVIOUS INEQUITIES BY USING MORE THAN MORAL
SUASION TO CURTAIL CONSPICUOUS CONSUMPTION OF SUCCESSFUL
TUNISIAN ENTERPRENEURS WHO HAVE BENEFITED MOST FROM
DEVELOPMENT POLICIES OF THE LAST SIX YEARS. TAX AND
PRICE PRACKAGE WILL, IN GENERAL, HAVE GREATEST EFFECT
ON MIDDLE AND UPPER CLASSES, ALTHOUGH SOME HIGHER
PRICES WILL ALSO EFFECT LOWER INCOME GROUPS. STIFF
NEW TAXES ON REAL ESTATE TRANSACTINS WILL, IN PARTICULAR,
PUT DAMPER ON PRIVATE GAIN FROM SPECULATION IN THIS
AREA. IT APPEARS THAT THESE MEASURES, COMBINED WITH
PROMISED WAGE INCREASES, ARE DESIGNED TO EXPAND THE
GOT'S POPULAR CONSTITUENCY DOWNWARD ON THE SOCIAL
SCALE AND BROADEN ITS APPEAL AMONG LOWER INCOME GROUPS
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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
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FM AMEMBASSY TUNIS

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INFO AMEMBASSY ALGIERS

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5. UNDERSTANDABLY, THE MIDDLE CLASS IS NOT HAPPY.
UP TO NOW, ITS MAIN COMPLAINT AGAINST HEDI NOUIRA

HAS BEEN HIS SUPPOSED LACK OF POLITICAL CAPACITY TO GUARANTEE STABILITY IN THE POST-BOURGUIBA PERIOD AND THUS TO PROTECT MIDDLE CLASS ECONOMIC AND POLITICAL STATUS. NOW, WITH THESE NEW FISCAL AND PRICE MEASURES NOUIRA APPEARS TO BE PURSUING A POLICY WHICH WILL CHIP AT THE PRIVILEGED POSITION AND EARNING POWER OF THE MIDDLE AND UPPER CLASSES. THUS NOUIRA MAY BE ERODING HIS SUPPORT ON ECONOMIC GROUNDS WHILE CONCERN STILL EXISTS THAT HE WILL NOT BE ABLE TO GUARANTEE POLITICAL STABILITY IN THE FUTURE.

6. LOWER CLASS REACTION TO GOT TAX AND PRICE PACKAGE IS LESS EASY TO GUAGE. WE EXPECT THIS REACTION WILL BE DETERMINED MORE BY THE PERCENTAGE INCREASE IN MINIMUM WAGE RATES WHEN IT COMES THAN BY RECENT PRICE INCREASES. THERE MUST, NEVERTHELESS, BE SOME POPULAR UNHAPPINESS OVER SOME PRICE INCREASES.

7. LONG TERM EFFECT OF GOT'S FISCAL AND PRICE PACKAGE
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IS DIFFICULT TO PREDICT. WE CONSIDER IT SIGNIFICANT THAT COMMITMENT IS STRONG WITHIN GOT TO ANSWER WIDESPREAD CONCERN OVER DISTRIBUTION OF FRUITS OF GROWTH AND TO MOBILIZE DOMESTIC DEVELOPMENT CAPITAL THROUGH TAXATION OF THOSE MOST ABLE TO PAY. THIS IS POSITIVE SIGN AND IF NOUIRA PLAYS THE ISSUE WELL BY DELIVERING THE ECONOMIC GROWTH HE HAS PROMISED, THE POLITICAL PAY-OFF COULD BE GREAT.

8. DETAILED ANALYSIS OF BUDGET FOLLOWS BY AIRGRAM.
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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
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